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16 Special Counsel to the Debtor

17 UNITED STATES BANKRUPTCY COURT  
18 EASTERN DISTRICT OF CALIFORNIA  
19 FRESNO DIVISION

20 In re:

21 SOUTHERN INYO HEALTHCARE  
22 DISTRICT,

23 Debtor.

Case No.: 2016-10015

Chapter 9

DC No.: KDG-1

**DECLARATION OF JAQUE HICKMAN  
IN SUPPORT OF DEBTOR'S  
OPPOSITION TO REQUEST FOR  
PAYMENT OF ADMINISTRATIVE  
EXPENSE CLAIM OF HEALTHCARE  
CONGLOMERATE ASSOCIATES, LLC  
ARISING OUT OF REJECTION OF  
EXECUTORY CONTRACT (11 U.S.C. §§  
503(b) AND 507(a)(2))**

Hearing:

Date: TBD

Time: TBD

Place: TBD

1 I, Jaque Hickman, hereby declare:

2 1. I am at least 18 years of age. I am the President of the board of directors of the  
3 Southern Inyo Healthcare District. I submit this declaration in support of the contemporaneously  
4 filed *Debtor's Opposition to Request for Payment of Administrative Expense Claim of Healthcare*  
5 *Conglomerate Associates, LLC Arising out of Rejection of Executory Contract (11 U.S.C. §§*  
6 *503(b) and 507(a)(2))* (the "Opposition"). Unless otherwise defined herein, all capitalized terms  
7 and phrases have the same meaning ascribed to them in the Opposition.  
8

9 2. Unless otherwise stated, I have personal knowledge of the matters set forth herein  
10 and if called as a witness, could and would competently testify to the same.

11 3. The District is a special district formed under the California Local Healthcare  
12 District Law, Cal. Health and Safety Code § 32000, *et seq.*, located in Lone Pine, California. As  
13 of the commencement of the Chapter 9 Case, the District owned and operated an emergency  
14 room, an acute care inpatient facility with four (4) beds, a skilled nursing facility with thirty-three  
15 (33) beds, and an out-patient medical clinic (collectively, the "Facilities").  
16

17 4. On or about January 2, 2016, the Debtor and HCCA entered into the Management  
18 Agreement. Pursuant to the Management Agreement, HCCA's contractual duties included, but  
19 were not limited to: (a) financial and operating system management; (b) preparation of proposed  
20 annual budgets; (c) purchasing; (d) contracting support and relationship management; (e)  
21 recruitment of personnel; and (f) supervision of the day-to-day operations of the Facilities.  
22

23 5. Throughout the entire term of the Management Agreement, HCCA failed to  
24 adequately perform its duties as discussed in detail below. In general, HCCA provided grossly  
25 deficient on-site management, failed to manage and collect the accounts receivable, entered into  
26 non-beneficial contracts on behalf of the District, hired improper personnel for various employee  
27 vacancies, and caused non-compliance with a number of state regulatory requirements.  
28

1           6. As a result of HCCA's failure to adequately perform under the Management  
2 Agreement, on or about October 11, 2017, the District held a special board meeting, where the  
3 District Board determined that it had no choice but to reject and terminate the Management  
4 Agreement and remove HCCA from the operations of the Facilities to protect the interests of the  
5 District and its creditors, as well as the health, safety and welfare of the community served by the  
6 District.  
7

8           7. HCCA's ineffective management services did not benefit the District as  
9 contemplated by the Management Agreement because HCCA failed to perform or ineffectively  
10 performed numerous duties under the Management Agreement.  
11

12           8. HCCA provided grossly deficient on-site management. Despite contractual  
13 obligation for on-site management, HCCA personnel were almost never on site, and the  
14 Administrator's office was empty 90% of the time. HCCA brought over personnel from HCCA  
15 headquarters, whose services were sporadic and ineffective. The HCCA personnel did not stay on  
16 site and would drop off suggestions at the Facilities then leave. In addition, HCCA did not  
17 provide any team building, training, or follow-up for employees.  
18

19           9. HCCA hired ineffective and inappropriate personnel that were very costly to the  
20 District. Instead of providing administration personnel included as part of the HCCA monthly  
21 management fee pursuant to the Management Agreement, HCCA contracted administration  
22 personnel and included them on the District's payroll. In addition, Employee vacancies were  
23 primarily filled by travelers or temporary assignments by HCCA employees, which included the  
24 requirement of providing housing. As a result, housing costs for employees increased, and in most  
25 cases, housing bills were not paid. In contrast, HCCA did not invest any money in providing job  
26 opportunities for local employees, as HCCA deemed it too expensive to advertise in the local  
27 papers, or on radio.  
28

1           10.     HCCA was highly unresponsive to vendors, the District Board, and the District's  
2 attorneys and financial consultants. HCCA personnel often failed to take or return calls to  
3 vendors. The lack of response from HCCA to vendors demanding payment for services led to  
4 potential and actual disruption of hospital services. In addition, HCCA failed to timely respond to  
5 requests for a disclosure statement and cash flow projections made by Baker & Hostetler and  
6 Force 10 (the Chapter 9 financial consultant), despite numerous emails being sent outlining the  
7 District's frustration in information not being provided.  
8

9           11.     HCCA mismanaged important financial information of the District. HCCA never  
10 completed accounts receivable statements, financial statements, cost reports, audits, or budgets.  
11 HCCA also never presented this financial information to the Board or public despite the Board's  
12 repeated requests. HCCA did not produce the required audited financials for the 2015-2016 and  
13 2016-2017 years. HCCA did not manage or oversee billing software conversion from Healthland  
14 to Medworx; and as a result, accurate accounts receivable information was not available, leading  
15 to an overstated and inaccurate accounts receivable in the millions of dollars.  
16

17           12.     HCCA also mismanaged assets of the District. HCCA illegally transferred monies  
18 from the skilled nursing facility resident fund on April 11, 2017. HCCA transferred \$11,000 from  
19 a patient trust account to the general account, then transferred \$11,000 to the payroll account.  
20 HCCA did not return the funds to the patient trust account until August 31, 2017.  
21

22           13.     HCCA did not make a necessary intergovernmental transfer to the State of  
23 California. A portion of the funding for the District's operations is derived from state and federal  
24 supplemental programs. To receive the maximum amount of funding, the District is required to  
25 provide an intergovernmental transfer of ("IGT") funds to the State of California. The District  
26 generates in excess of \$1,000,000.00 per year from these IGT payments. HCCA failed to make an  
27  
28

1 IGT payment on behalf of the District in or about September 2017, costing the District more than  
2 \$300,000 in additional funds.

3 14. HCCA failed to provide necessary financial information to the District Board.  
4 HCCA made several unauthorized transfers between the District and the Tulare Local Healthcare  
5 District ("Tulare"), another California healthcare district managed by HCCA. The Board did not  
6 know monies flowed back and forth between the District and Tulare except to be told that the IGT  
7 money came from Tulare because it had to come from a government agency. Supplies came into  
8 the District from Tulare, but there was supposed to be an accounting entry that would reflect them  
9 as a vendor. This does not seem to be the case since no financials were ever presented. The Board  
10 did not know any checks were ever written to Tulare or HCCA, with the exception of the IGT  
11 reimbursement.  
12

13 15. Instead of working the accounts receivable, HCCA extended the District's line of  
14 credit beyond the agreed to amount without the District Board's consent or knowledge. The  
15 District Board agreed to a \$500,000.00 line of credit with HCCA. However, HCCA extended the  
16 line of credit to \$800,000.00 before the Board was aware of the sum. After learning of the  
17 extended line of credit, the Board sent a letter of complaint to HCCA in August 2017 regarding  
18 the extended line of credit. Upon receipt of the letter, HCCA immediately demanded  
19 collateralizing the line of credit. Also after receiving the letter, HCCA missed an IGT payment  
20 and paid a payroll late. The Board believes that these actions by HCCA were to coerce the  
21 District to collateralize the line of credit, which the Board agreed to do under duress.  
22

23 16. HCCA failed to make necessary payments to vendors and servicers. For example,  
24 HCCA did not pay a contracted education vendor (Relias Learning), which led to the Facilities  
25 not meeting requirements for initial staff education and annual re-training. In addition, HCCA did  
26 not pay or communicate with Petrak and Associates. Petrak and Associates were hired to oversee  
27  
28

1 Medicare and Medi-Cal cost report preparation. As a result of HCCA's failure to communicate  
2 and pay Petrak and Associates, cost reports necessary to receive Medicare and Medi-Cal  
3 reimbursements were not completed in a timely manner, which led to financial withholds. When  
4 the District contacted Petrak and Associates, Derek Petrak stated that he had essentially dismissed  
5 the District as a client and was not going to do any further work for it due to lack of payment and  
6 communication.  
7

8 17. HCCA entered into multiple contracts on behalf of the District that contained  
9 unsuitable contract terms, were not beneficial to the District, and were not properly or thoroughly  
10 explained to the District Board prior to their execution. Examples of such non-beneficial contracts  
11 include: (a) the HealthTalent Solutions contract for revenue cycle management and business  
12 office management services; (b) the Medsphere contract for IT management services; and (c) the  
13 Sharonda Brown contract hiring Sharonda Brown as Interim Chief Nursing Officer and Associate  
14 Administrator. For many of the contracts entered into by HCCA on behalf of the District, the  
15 terms were onerous and not reflective of best business practices. In addition, HCCA committed  
16 the District to subcontractors, who were brought in without notice and were usually not paid.  
17 Such subcontractors were usually presented as part of the HCCA team as if the management fee  
18 would cover the cost but they were billed to the District instead. When the subcontractors were  
19 not paid, they became part of a growing list of accounts payable vendors.  
20  
21

22 18. HCCA entered into contracts for needed services in haste without any due  
23 diligence and only in response to repeated statements of need by the Board or other personnel.  
24 For example, HCCA contracted HealthTalent Solutions to provide revenue cycle management  
25 and business office management services only after a fierce expression of dissatisfaction by the  
26 Board regarding lack of accounts receivable collections, and ultimately, HealthTalent Solutions  
27 did not provide adequate services to the District.  
28

1           19. As another example of an onerous contract, the Medsphere contract (\$28,800 per  
2 month) has never worked to produce revenue. HCCA contracted Medsphere to provide IT  
3 management services, including electronic medical records oversight, help desk support, and  
4 training. HCCA did not provide the personnel, financial information, or training to make the  
5 Medsphere contract worthwhile. From August 2016 to date, the payments on the Medsphere  
6 contract have provided no benefit to the District. The total cost of the Medsphere contract to the  
7 District is undetermined at this time.

9           20. HCCA's mismanagement led to failures to comply with numerous regulatory  
10 requirements. HCCA's management failures that resulted in regulatory non-compliance include,  
11 but are not limited to, the following: (a) HCCA failed to insure the necessary medical committees  
12 were formed and functioned; (b) HCCA failed to respond to the California Department of Public  
13 Health ("CDPH") and did not follow through on corrections after state inspections; (c) HCCA did  
14 not form a psychotropic team as required by the DP SNF Survey of April 6, 2017; (d) HCCA did  
15 not provide an Infection Control Coordinator (ICC) to complete quarterly Quality Assurance  
16 (QA) on infection control, and there was no ICC identified or quarterly QA meeting or reporting;  
17 (e) HCCA failed to respond and provide a signature to complete the hospital drug room  
18 certification pursuant to state regulations, which led to the drug room permit expiring and a  
19 citation from the State Board of Pharmacy and CDPH Licensure; (f) HCCA did not create a  
20 Pharmacy and Therapeutics Committee for one and a half years as required by state regulation  
21 and District policy, leading to an unsafe medication environment and citations from the CDPH  
22 Licensure; (g) HCCA failed to insure there was an organized medical staff as outlined in state  
23 regulations, leading to even more state citations; and (h) HCCA did not have a defined admission  
24 criteria pursuant to state regulations, leading to numerous citations from the CDPH Licensure.  
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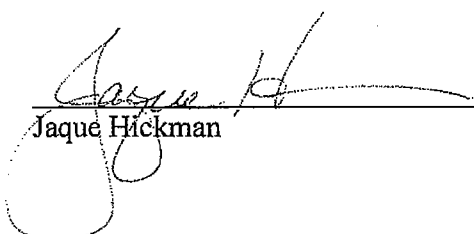
1           21. As a result of HCCA's mismanagement, the District was forced to hire a CFO to  
2 replace the CRO hired by HCCA. The current CFO is still struggling to figure out the accurate  
3 financial condition of District. The CFO had to go back to the beginning of the Management  
4 Agreement term to validate financial information and create financial statements to meet federal,  
5 state, cost report, and other requirements. HCCA's mismanagement of revenue cycle operations  
6 led to missing approximately \$1.5 million in net revenue for FYE 2017.  
7

8           22. The Travel Expenses claimed by HCCA are unreasonable and did not benefit the  
9 District. Because HCCA management was not on site at the Facilities, HCCA incurred significant  
10 expenses travelling to the Facilities. The Travel Expenses are even more unreasonable given the  
11 fact that HCCA always travelled to the Facilities using an expensive, private jet.  
12

13           23. In sum, the District believes that the damages caused by HCCA's mismanagement  
14 exceed the amount that HCCA claims as an administrative expense claim.

15 I declare under penalty of perjury that the foregoing is true and correct.

16 Executed this 22 day of February, 2018, at Lone Pine California.  
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19 Jaque Hickman  
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